

**STATE OF NORTH DAKOTA
BISMARCK, NORTH DAKOTA**

**REPORT OF EXAMINATION
OF
DENTAL SERVICE CORPORATION
OF NORTH DAKOTA
FARGO, NORTH DAKOTA**

**AS OF
DECEMBER 31, 1998**

STATE OF NORTH DAKOTA
DEPARTMENT OF INSURANCE

I, the undersigned, Commissioner of Insurance of the State of North Dakota do hereby certify that I have compared the annexed copy of the Report of Examination of the

The Dental Service Corporation of North Dakota
4510 13th Avenue SW
Fargo, ND 58121

as of December 31, 1998, with the original on file in this Department and that the same is a correct transcript therefrom and of the whole of said original.

IN WITNESS WHEREOF, I have hereunto
set my hand and affixed my official
seal at my office in the City of
Bismarck, this _____ day of
_____, 2000.

Glenn Pomeroy
Commissioner of Insurance

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Fargo, North Dakota
October 29, 1999

Honorable Glenn Pomeroy
Commissioner
North Dakota Insurance Department
600 East Boulevard Avenue
Bismarck, ND 58505

Dear Commissioner:

Pursuant to your instructions and the statutory requirements of the State of North Dakota, a statutory examination has been made of the books, records, and financial condition of

The Dental Service Corporation of North Dakota
4510 13th Avenue SW
Fargo, ND 58121

and the report thereon is respectfully submitted.

INTRODUCTION

The Dental Service Corporation of North Dakota, hereinafter referred to as the "Company", was last examined as of December 31, 1994, for the period from January 1, 1990, through December 31, 1994, by Examiners of the North Dakota Insurance Department with assistance from the audit firm, Eide Helmeke, P.L.L.P.

The current statutory examination was conducted by Examiners from the North Dakota Insurance Department. The statutory examination was performed at the Company's home office in Fargo, North Dakota.

SCOPE OF STATUTORY EXAMINATION

This examination was conducted pursuant to N.D. Cent. Code § 26.1-17-32 and covers the four-year period from January 1, 1995, through December 31, 1998, including any material transactions and/or events occurring subsequent to the examination date and noted during the course of this statutory examination. During the course of this examination, assets were verified and valued and all known liabilities were established in accordance with statutory requirements and procedures recommended in the National Association of Insurance Commissioners Examiners Handbook. The extent of review on any given account or activity was based upon its relationship and importance to the total operation.

Accounting and other pertinent records were reviewed and test-checked to the extent deemed appropriate and a general review of the Company's operations, including market conduct

activity, was conducted.

Work papers provided by the Company's independent auditor, Eide Bailly, L.L.P., were reviewed and where deemed appropriate certain procedures and conclusions documented in those work papers have been relied upon and copied for inclusion into the working papers for this examination.

Detail pertaining to the various phases of the examination are set forth under the appropriate caption in subsequent sections of this report.

All recommendations contained in the prior examination report dated December 31, 1994, have been adequately addressed by the Company.

HISTORY

General

The Company was incorporated on May 22, 1970, under the laws of the State of North Dakota relating to benevolent and charitable corporations. It commenced business on July 1, 1973, and is further governed under N.D. Cent. Code Chapter 26.1-17 pertaining to nonprofit dental service corporations. Accordingly, it has no capital stock and no part of its earnings shall in any manner inure to the benefit of any member or individual.

Membership

The membership of the Company is composed of licensed dentists who practice in North Dakota and who have contracted with the Company to provide services to individuals who are subscribers to the benefit plan. Dentists who are licensed to practice their profession and who comply with the rules and regulations of the Company but who are not practicing in North Dakota may be non-voting members.

Seven members in good standing in attendance at each annual meeting constitutes a quorum. During the years under examination, the annual meetings were held on the following dates:

September 8, 1995
September 13, 1996
September 19, 1997
September 18, 1998

A quorum was present at each annual meeting.

Growth of the Company

The growth of the Company for the years since 1994 is shown in the following schedule, which was prepared from the Company's annual statements for the years indicated:

| Year | Admitted Assets | Liabilities | Unassigned Funds |
|-------------|------------------------|--------------------|-------------------------|
| 1995* | \$4,090,034 | \$1,232,781 | \$2,857,253 |
| 1996* | 4,828,875 | 1,644,669 | 3,184,206 |
| 1997* | 5,731,115 | 2,195,833 | 3,535,282 |
| 1998** | 5,976,539 | 2,202,585 | 3,773,954 |

* Extracted from Company annual statement.

** Determined by statutory examination.

MANAGEMENT AND CONTROL

The management of the Company's affairs, business, and property is vested in a Board of Directors, consisting of not less than nine persons, a majority of whom shall be licensed dentists. To the extent available, one director shall be elected from each of the seven districts of the North Dakota State Dental Association. In addition, not more than four additional directors may be elected from the membership at large by a majority of the members present at the annual meeting. The balance of the directors shall be persons who are or who have agreed to become subscribers of the corporation.

Directors

Per the Company minutes, directors serving the Company at December 31, 1998, were as follows:

| Name | Term Expires | Address | District or Representation |
|---------------------------|---------------------|----------------|-----------------------------------|
| James B. Lawson, DDS | 1999 | Devils Lake | North Central |
| Darrell J. Trzpuc, DDS | 2000 | Center | Missouri Slope, At Large |
| Paul J. Tronsgard, DDS | 2000 | Fargo | Southeast |
| John J. Baden, DDS | 2001 | Grand Forks | Northeast |
| Leo D. Brackel | 2001 | Mott | West Slope, Lay Member |
| Gregory A. Evanoff, DDS | 2000 | Minot | Northwest |
| Lawrence E. Gjerstad, DDS | 2000 | Mott | West Slope |
| Thomas R. Heck | 1999 | Jamestown | Central, Lay Member |
| Tina M. Gustafson | 2001 | Langdon | Northeast, Lay Member |
| Julie J. Love | 2000 | Minot | Northwest, Lay Member |
| Mary Beth Olerud | 1999 | Wahpeton | Southeast, Lay Member |
| James M. Ukestad, DDS | 1999 | Jamestown | Central |
| Bill A. Whalen | 2001 | Bismarck | Missouri Slope, Lay Member |
| Thomas J. York, DDS | 1999 | Bismarck | Missouri Slope |

Officers

The Bylaws provide that the Board of Directors shall elect from their members a Chairman of the Board, one or more Vice Chairmen, a Secretary-Treasurer, and such subordinate officers as the Board from time to time elects. The managing corporate officers shall include a President, one or more Vice Presidents, and such other officers as may be elected or appointed, subject to the approval of the Board. The President shall be elected by the Board. The other managing officers shall be appointed by the President.

Officers serving on December 31, 1998, were as follows:

| <u>Officer</u> | <u>Title</u> |
|------------------------|---------------------|
| James B. Lawson, DDS | Chairman |
| Darrell J. Trzpuc, DDS | Vice Chairman |
| Paul J. Tronsgard, DDS | Secretary-Treasurer |
| Robert B. Carlson | President |
| Nola J. Bakke | Assistant Secretary |
| Allen W. Aaberg | Assistant Treasurer |

Conflict of Interest Procedures

The Company requires the members of the Board of Directors to file a conflict of interest statement on an annual basis.

Corporate Records

The minutes of the Board of Directors for the period under statutory examination were read. Minutes of meetings indicate that all meetings were held in accordance with the Company Bylaws.

The Board of Directors' minutes indicate the approval and support of transactions and events.

The September 19, 1997, minutes of the Board of Directors disclose the review of the previous statutory examination.

At its April 19, 1997, meeting the Board of Directors approved the following amendments to the Bylaws:

- Article III, Section 4 The number of members needed for a quorum at the annual meeting was changed from 10 to 7 members.
- Article IV, Section 3 The annual meeting may be held at any time in conjunction with the annual meeting of the North Dakota Dental Association.
- Article VIII, Section 3 Eliminated entire section requiring payment of an entrance fee for a participating provider to become a member of the Company.

- Article X Eliminated the last line of Article X which required payments for out-of-state services to be made to the subscriber.

AFFILIATED COMPANIES

Affiliated companies include Noridian Mutual Insurance Company (formerly Blue Cross and Blue Shield of North Dakota) and its subsidiaries, Northern Capital Management Company, Coordinated Insurance Services, Inc., and Twenty First Century Information Solutions, Inc. Northern Capital Management Company also has subsidiaries of NCM Properties, Inc., Payroll Solutions, L.L.C., and Northern Capital Trust Company. Coordinated Insurance Services, Inc., also has a subsidiary of Benefit Plan Administrators, Inc. Other affiliates of The Dental Service Corporation of North Dakota include Lincoln Mutual Life and Casualty Insurance Company, North Dakota Vision Services, Inc., and the Comprehensive Health Association of North Dakota.

FIDELITY BOND AND OTHER INSURANCE

The Company is protected from loss against insurable hazards through the Noridian Mutual Insurance Company package of insurance. Coverages are as follows:

1. Noridian Mutual Insurance Company and affiliated companies are named insureds on a financial institution bond providing a single loss limit of liability of \$2,000,000 for loss resulting from dishonest or fraudulent acts committed by an employee.
2. Directors and Officers Liability
3. Commercial General Liability
4. Commercial Property
5. Auto
6. Umbrella
7. Valuable Papers
8. Boiler and Machinery
9. Equipment Floater
10. Electronic Data Processing
11. Communications Liability
12. Workers Compensation

PENSION AND INSURANCE PLANS

The Company does not have any employees and consequently has not adopted any employee welfare plans.

INSURANCE PRODUCTS AND RELATED PRACTICES

Advertising

A full review of advertisements for compliance with state statutes was conducted with no exceptions noted.

Premiums

The Company contracts with subscribers to provide a broad range of dental services in accordance with a group contract which may contain the following basic plans:

| Basic Code | Front-End Benefits | Annual Maximum | Deductible | Coinsurance Amounts | Orthodontia |
|-------------------|---------------------------|-----------------------|-------------------|----------------------------|--------------------|
| 01 | No | \$1,000 | \$50 | 80/20 | None |
| 02 | No | \$1,000 | \$50 | 80/20-50/50 | None |
| 03 | No | \$1,000 | \$50 | 80/20 | \$600 |
| 04 | No | \$1,000 | \$50 | 80/20-50/50 | \$600 |
| 05 | 80% | \$1,000 | \$50 | 80/20 | None |
| 06 | 80% | \$1,000 | \$50 | 80/20-50/50 | None |
| 07 | 80% | \$1,000 | \$50 | 80/20 | \$600 |
| 09 | 100% | \$1,000 | \$25 | 80/20-50/50 | None |
| 13 | 100% | \$750 | None | 80/15-50/50 | \$500 |
| 15 | 100% | \$1,000 | \$50 | 80/20-60/40 | \$1,000 |
| 22 | 100% | \$1,000 | \$50 | 80/20-50/50 | \$600 |
| 24 | 100% | \$1,500 | \$50 | 80/20-50/50 | None |
| 31 | No | \$1,000 | \$50 | 80/20 | \$1,200 |
| 32 | No | \$1,000 | \$50 | 80/20-50/50 | \$1,200 |
| 35 | 80% | \$1,000 | \$50 | 80/20 | \$1,200 |
| 36 | 80% | \$1,000 | \$50 | 80/20-50/50 | \$1,200 |
| 41 | 80% | \$1,000 | None | 80/20-50/50 | \$1,200 |
| 42 | 100% | None | None | 80/20 | \$1,500 |
| 51 | 80% | \$500 | \$50 | 80/20-50/50 | None |
| 62 | 100% | \$1,000 | \$25 | 80/20-50/50 | None |
| 63 | 100% | \$1,000 | \$25 | 80/20-50/50 | \$1,500 |
| 64 | No | \$1,000 | \$50 | 80/20-50/50 | None |
| 66 | 100% | \$1,000 | \$50 | 80/20-50/50 | None |
| 67 | 100% | \$1,000 | \$50 | 80/20-50/50 | \$1,500 |
| 72 | 100% | \$1,000 | \$100 | 80/20-50/50 | None |
| 73 | 100% | \$1,000 | \$100 | 80/20-50/50 | \$1,500 |
| 214 | 80% | \$750 | \$50 | 80/20-50/50 | None |
| 220 | No | \$1,000 | \$50 | 80/20-50/50 | None |

| Basic Code | Front-End Benefits | Annual Maximum | Deductible | Coinsurance Amounts | Orthodontia |
|------------|--------------------|----------------|------------|---------------------|-------------|
| 221 | 80% | \$1,000 | \$50 | 80/20-50/50 | None |
| 222 | 80% | \$1,000 | \$50 | 80/20-50/50 | \$600 |
| 223 | No | \$1,000 | \$50 | 80/20-50/50 | None |
| 224 | 100% | \$1,000 | \$50 | 80/20-50/50 | None |
| 225 | 100% | \$1,000 | \$50 | 80/20-50/50 | \$1,500 |

Codes 1, 5, 7, 31, 35, 62, and 63 are available to groups of 25 or more participants only. Codes 2, 4, 6, 32, 36, 64-67, 72, 73, and 220-225 are available to groups of 10 or more participants only.

Codes 3, 9, 13, 15, 22, 24, 41, and 42 are available to special groups.

Codes 51 and 214 are available to groups of 3 to 9 participants only.

In addition to the above plans, the Company offers a dental accident plan program for school children.

Territory and Plan of Operation

The Company is authorized to transact the business of a nonprofit dental service association in the State of North Dakota only.

The Company markets its products primarily through 23 captive agents of Noridian Mutual Insurance Company. The Company also has 465 nonaffiliated brokers and agents that market the Company's products.

Consumer Complaints

The Examiner reviewed the customer complaint register for Noridian Mutual Insurance Company which contains customer complaints involving Noridian and its affiliates. The register did not contain any complaints relating to the Company.

ACCOUNTS AND RECORDS

The Company has contracted with Noridian Mutual Insurance Company for accounting, administrative, and related services. The contract was negotiated in 1975 and provides that Noridian Mutual Insurance Company be reimbursed by the Company for sales and administrative services rendered on the basis of its reasonable costs.

The agreement calls for Noridian Mutual Insurance Company to provide the following services:

1. Establish subscriber contract benefits.
2. Recommend subscription rates for contract benefits and obtain Company approval.
3. Establish enrollment regulations governing the acceptance of the Company's subscribers.
4. File the Company's contracts with the State Insurance Department as required.
5. Issue printed subscriber contracts to enrolled groups and identification cards to all the Company's subscribers.
6. Market the Company's contract by providing the services of Noridian's marketing staff and by advertising the availability of such a contract.
7. Issue billing notices to the Company's subscribers and be custodian of such payments.
8. Provide administrative services required to pay the Company's claims.
9. Provide professional relations services between the Company and participating dentists.
10. Ensure judicious utilization of the Company's contract benefits by establishing programs to discourage abuse of such benefits.
11. Serve the Company's subscribers by answering all subscribers' inquiries relating to available benefits, subscription rates, and payments of claims.
12. Provide for the accounting of all the Company's income and expense in accordance with commonly accepted accounting procedures, prepare an annual budget for the Company, and provide Company officials with periodic financial reports.
13. Maintain statistical data for the Company which will remit the establishment of actuarially sound subscription rates.
14. Provide ongoing professional management of the program and provide for research and development to maintain the Company's program in accordance with current dental practices.

During the four-year period under review, the Company's actual reimbursed costs incurred to Noridian Mutual Insurance Company were determined to be as follows:

| <u>Year</u> | <u>Amount</u> |
|-------------|---------------|
| 1995 | \$1,960,284 |
| 1996 | \$2,066,516 |
| 1997 | \$2,495,881 |
| 1998 | \$2,512,897 |

The following items noted during this examination were deemed worthy of comment:

1. The Company did not complete Part 3 "Analysis of Expenses" of the Underwriting and Investment Exhibit in accordance with NAIC *Annual Statement Instructions*. The NAIC requires a company that pays any affiliated entity for the management, administration, or service of all or part of its business or operations to allocate these costs to the appropriate expense classification items (salaries, rent, postage, etc.) as if these costs had been borne directly by the company. Management, administration, or similar fees should not be reported as a one-line expense. In its 1998 Annual Statement, the Company reported management fees incurred under the administrative services agreement with Noridian on line 17 "Outsourced services including EDP, claims, and other services."

It is recommended that the Company allocate expenses incurred under management or administrative agreements to the appropriate expense classification as if those costs had been borne directly by the Company.

2. The Company did not retain a copy of the files supporting the amounts reported in its 1998 statutory Annual Statement for claims paid and premiums written. The Company was able to recreate those files for the Examiners within a reasonable range of difference. The NAIC requires companies to print out all transactions and other input data, along with detailed files as of year end, to allow tracing to original records. If such information is not printed, then it must be available for printout.

It is recommended that the Company retain a copy of the files supporting Annual Statement amounts or be able to create the files supporting amounts reported in the statutory Annual Statement.

FINANCIAL STATEMENTS

The Financial Statements section includes the following:

Statement of Assets, Liabilities, Reserves, and Other Funds, as of December 31, 1998

Underwriting and Investment Exhibit For the Year Ended December 31, 1998

Reconciliation of Reserves and Unassigned Funds For the Year Ended December 31,
1998

Analysis of Examination Changes

Dental Service Corporation of North Dakota
Statement of Assets, Liabilities, Reserves, and Other Funds
as of December 31, 1998

| | Ledger Assets | Non-Ledger Assets | Assets Not Admitted | Net Admitted Assets |
|--|--------------------------|------------------------------|--------------------------------|------------------------------------|
| Bonds | \$3,649,880 | | \$2,068 | \$3,647,812 |
| Stocks: | | | | |
| Preferred stocks | 10,277 | \$ 2,623 | | 12,900 |
| Common stocks | 906,198 | 262,357 | | 1,168,555 |
| Cash | (504,417) | | | (504,417) |
| Short-term investments | 29,200 | | | 29,200 |
| Uncollected premiums | 68,476 | | | 68,476 |
| Amounts receivable relating to uninsured accident and health plans | 1,030,000 | | | 1,030,000 |
| Federal income tax recoverable and interest thereon | 86,257 | | | 86,257 |
| Guaranty funds receivable or on deposit | 7,041 | | | 7,041 |
| Interest dividends and real estate income due and accrued | 75,596 | | | 75,596 |
| Receivable from parent, subsidiaries, and affiliates | 351,584 | | | 351,584 |
| A/R-North Dakota FEP | 3,535 | | | 3,535 |
| Totals | <u>\$5,713,627</u> | <u>\$264,980</u> | <u>\$2,068</u> | <u>\$5,976,539</u> |

Dental Service Corporation of North Dakota
Statement of Assets, Liabilities, Reserves, and Other Funds
as of December 31, 1998

| | |
|--|-------------------------------|
| Claims unpaid | \$ 750,000 |
| Unpaid claim adjustment expenses | 25,000 |
| Unearned premiums | 324,728 |
| Taxes, licenses, and fees | 58,843 |
| Other expenses | 10,600 |
| Liability for amounts held under uninsured accident and health plans | 1,030,000 |
| Deferred accounts receivable | 962 |
| Unclaimed property liability | 1,814 |
| Deposits national accounts | <u>638</u> |
| Total liabilities | \$2,202,585 |
| Unassigned funds | <u>3,773,954</u> |
| Total | <u><u>\$5,976,539</u></u> |

Dental Service Corporation of North Dakota
Underwriting and Investment Exhibit
for the Year Ended December 31, 1998

Underwriting Income

| | | |
|---------------------------------|--------------|----------------|
| Premiums earned | | \$13,158,220 |
| Deductions: | | |
| Claims incurred | \$11,368,881 | |
| Expenses incurred: | | |
| Claim adjustment | 887,133 | |
| Administrative | 1,512,306 | |
| Soliciting | 413,175 | |
| | | |
| Total underwriting deductions | | 14,181,495 |
| Net underwriting gain or (loss) | | \$ (1,023,275) |

Investment Income

| | | |
|--------------------------------------|------------|---------|
| Net investment income earned | \$ 236,087 | |
| Net realized capital gains or losses | 151,039 | |
| | | |
| Net investment gain or (loss) | | 387,126 |

Other Income

| | | |
|---|--------------|------------|
| Net miscellaneous income and miscellaneous expense | \$ 2,615 | |
| ASC/Cost Plus premium income | 14,775,714 | |
| ASC/Cost Plus health net income before federal income taxes | (13,930,037) | |
| | | |
| Net other income | | 848,292 |
| Net gain or (loss) before federal income taxes | | \$ 212,143 |
| Federal income taxes incurred | | 9,804 |
| | | |
| Net income | | \$ 202,339 |

Dental Service Corporation of North Dakota
Reconciliation of Reserves and Unassigned Funds

| | December 31 | | | |
|---|---------------------------|---------------------------|---------------------------|---------------------------|
| | 1998 | 1997 | 1996 | 1995 |
| Reserves and unassigned funds, December 31, previous year | \$3,535,282 | \$3,184,206 | \$2,857,253 | \$2,769,880 |
| Net income | 202,339 | 319,742 | 268,790 | 10,412 |
| Net unrealized capital gains or (losses) | 36,333 | 31,334 | 58,163 | 115,184 |
| Prior period adjustment - TIC | | | | (38,223) |
| Net change in reserves and unassigned funds for the year | <u>\$ 238,672</u> | <u>\$ 351,076</u> | <u>\$ 326,953</u> | <u>\$ 87,373</u> |
| Reserves and unassigned funds, December 31, current year | <u><u>\$3,773,954</u></u> | <u><u>\$3,535,282</u></u> | <u><u>\$3,184,206</u></u> | <u><u>\$2,857,253</u></u> |

Analysis of Examination Changes
as of December 31, 1998

| Description | Annual Statement | Per Examination | Surplus Change | |
|---|------------------|-------------------|------------------|------------------|
| | | | Increase | Decrease |
| <u>Assets</u> | | | | |
| Federal income tax recoverable and interest thereon | \$ 92,061 | \$ 86,257 | | \$(5,804) |
| Receivable from parent, subsidiary, and affiliates | 158,035 | 351,584 | \$193,549 | |
| Total examination changes | | | <u>\$193,549</u> | <u>\$(5,804)</u> |
| Reserves and unassigned funds per annual statement | | \$3,586,209 | | |
| Reserves and unassigned funds per examination | | 3,773,954 | | |
| Increase per examination | | <u>\$ 187,745</u> | | |

NOTES TO FINANCIAL STATEMENTS

Assets

Bonds

The admitted value of bonds was determined to be \$3,647,812 or the same amount as reported by the Company in its 1998 Annual Statement. The bonds are held by the Northern Capital Trust Company.

The admitted value of bonds owned by the Company at December 31, 1998, represents 61 percent of the Company's admitted assets. 99.6 percent of the bonds owned at December 31, 1998, were rated either Class 1 or Class 2 by the NAIC.

The market value, actual cost, par value, and book and statement value of the bond portfolio is as follows at December 31, 1998:

| Description | Market Value | Actual Cost | Par Value | Book and Statement Value |
|---|--------------------|--------------------|--------------------|--------------------------|
| U.S. Government | \$1,077,700 | \$1,027,085 | \$ 985,000 | \$1,015,603 |
| Special revenue and special assessment and nonguaranteed obligations of government agencies | 915,819 | 927,459 | 905,943 | 909,673 |
| Public utilities | 40,400 | 37,228 | 40,000 | 38,738 |
| Industrial and miscellaneous | 1,721,353 | 1,711,014 | 1,641,000 | 1,685,869 |
| Totals | <u>\$3,755,272</u> | <u>\$3,702,786</u> | <u>\$3,571,943</u> | <u>\$3,649,883</u> |

The Company has an investment advisory agreement with Northern Capital Management Co. (NCM) which contains a custodian provision permitting the Company to appoint Northern Capital Trust (NCT) as custodian. The custodian provision also contains two indemnification provisions involving NCT as custodian; however, one of the provisions does not conform with the safeguard and control language of the NAIC requirements.

The *Examiners Handbook* requires each custodian or safekeeping agreement to contain the following indemnification provision (the underlined phase is not currently in the agreement with NCM):

Custodian will indemnify the insurance company for any loss caused by negligence or dishonesty of the bank or trust company or burglary, robbery, holdup, theft, or mysterious disappearance, including loss by damage or destruction.

It is recommended that the parties modify the investment advisory agreement so that it contains all of the recommended NAIC indemnification provisions.

Review of investments acquired during the period under review and of the security positions at December 31, 1998, determined that some investments acquired during the period under review and owned at December 31, 1998, did not qualify as authorized investment except under N.D. Cent. Code § 26.1-05-19(33), commonly known as the basket clause. The following represent examples of such investments noted by the Examiners:

- Investments in common stock in entities that did not have either the earnings or the experience needed to qualify as an authorized investment except under N.D. Cent. Code § 26.1-05-19(33)
- Investments in common stock in foreign corporations, which do not qualify as authorized investments except under N.D. Cent. Code § 26.1-05-19(33).

The Company does not maintain a list of investments admitted under the basket clause. Without a schedule to monitor those investments, the possibility exists that the Company may improperly acquire investments in excess of basket clause limitations.

It is recommended that the Company maintain a list of assets admitted under the basket clause for the purpose of determining compliance with the basket clause limitations.

Testing of the investment transactions for the period under examination determined that the information listed in Schedule D, Part 3 did not always agree with supporting documentation. The Examiners noted that the Company did not record a 1998 Nokia stock split in Schedule D, Part 3 and it recorded the incorrect amount of Nokia shares acquired on October 14, 1998, in Schedule D, Part 3.

It is recommended that the Company record all investment transactions in Schedule D and that the information recorded in Schedule D agree with supporting documentation.

Federal Income Tax Recoverable

Federal income tax recoverable was determined by this examination to be in the amount of \$86,257 or \$5,804 less than the amount reported by the Company in its 1998 Annual Statement. The examination amount was obtained from the Company's 1998 federal income tax return.

Receivable From Parent, Subsidiaries, and Affiliates

The Examiners increased this asset by \$193,549 from the Company's reported amount of \$158,035 to \$351,584. The increase reflects alternate finance claims paid in December 1998 but not recorded as a receivable until 1999.

CONCLUSION

The financial condition of the Company, as of December 31, 1998, as determined by this examination is summarized as follows:

| | |
|--|--------------------|
| Admitted Assets | <u>\$5,976,539</u> |
| Total Liabilities | \$2,202,585 |
| Reserves and Unassigned Funds | <u>3,773,954</u> |
| Liabilities, Reserves, and Other Funds | <u>\$5,976,539</u> |

Since the last examination conducted as of December 31, 1994, the Company's admitted assets have increased \$1,853,500, its total liabilities have increased \$849,426, and its reserves and unassigned funds has increased \$1,004,074.

The courteous cooperation extended by the officers and employees of the Company during the course of the examination is gratefully acknowledged.

In addition to the undersigned, Tom Bowman, Examiner, CPA, of the North Dakota Insurance Department participated in this examination.

Respectfully submitted,

David Weiss, CFE
Examiner
North Dakota Insurance Department

COMMENTS AND RECOMMENDATIONS

It is recommended that the Company allocate expenses incurred under management or administrative agreements to the appropriate expense classification as if those costs had been borne directly by the Company.

It is recommended that the Company retain a copy of the files supporting Annual Statement amounts or be able to create the files supporting amounts reported in the statutory Annual Statement.

It is also recommended that the parties modify the investment advisory agreement so that it contains all of the recommended NAIC indemnification provisions.

It is recommended that the Company maintain a list of assets admitted under the basket clause for the purpose of determining compliance with the basket clause limitations.

It is recommended that the Company record all investment transactions in Schedule D and that the information recorded in Schedule D agree with supporting documentation.